

Arizona State Treasury
Arizona Endowment Fund
Financial Advisor/Consultant

Date of Response:	
Name of Firm:	
Contact:	
Title:	
Address:	
Telephone:	
Facsimile:	
E-Mail:	

Part I

PURPOSE, MINIMUM REQUIREMENTS, AND SCOPE OF SERVICES

A. PURPOSE

1. This Request for Proposal (“RFP”) is issued by Arizona State Treasurer’s Office (“ASTO”) at the request of the Arizona Board of Investment (“BOI”) for the purpose of hiring one (1) financial Advisory firm to provide technical Advisory/Consulting (“Advisory”) services to the BOI. The Advisor/Consultant (“Advisor”) will provide analytic and consulting services relating to the Arizona State Endowment Fund.

B. MINIMUM REQUIREMENTS

To be considered as an Advisor for the purpose stated above, Advisor must meet the following minimum requirements as of October 31, 2004.

1. Actively advising clients with a total of at least \$100 million in assets.
2. Minimum five (5) year track record providing Advisory services to public and private endowments, foundations or pensions.
3. If using a team approach to provide services, at least 1/2 of the Advisory team must have worked for the same organization for the last two years.

C. OVERVIEW

The Permanent Endowment Fund was established in the Arizona Constitution under Article 10, Section 7. The Arizona Constitution requires the Treasurer to deposit and track the proceeds of land sales in the endowment fund according to the grant under which the land was conveyed to the State. As originally established, the permanent endowment fund was restricted to investing in fixed-income type investments. The amount distributed was based upon the net distributable income from the trust corpus.

The ability to invest the permanent endowment funds in equities was taken to the voters in 1998. As amended, the Arizona Constitution mandates annual distributions based upon real returns, adjusted by inflation, as measured by the GDP deflator. The BOI has a desire to meet three objectives: (1) provide a predictable, stable stream of earnings to fund participants; (2) ensure the purchasing power of this revenue stream does not decline over time; and (3) ensure the purchasing power of the endowment assets is not eroded over time. While capital preservation is paramount, appropriate investment in various assets is acknowledged as being warranted to capture satisfactory returns, especially if inflation should resurface. The BOI seeks a “balanced” investment approach under which investment risk is diversified across major asset classes (cash, fixed income securities and domestic common stocks). Equities purchased by the endowment must be prudent, listed on a national stock exchange or through the NASDAQ, and comprise no more than 60% (at cost) of the assets. No more than 5% of the cost basis of assets may be invested in equity issues of the same institution agency, or corporation.

Currently, the Endowment fund has assets of approximately \$1.2 Billion. Projected future sales of trust lands are expected to increase the size of the endowment significantly over the next decade. Currently, assets are allocated on a book value basis with approximately 50% in fixed income and 50% in equities. The equities are invested approximately 75% in a S&P 500 large-cap index portfolio and 25% a S&P 400 mid-cap pool. The S&P 400 index pool invests only in the largest 200 companies of the index. The BOI has approved a S&P 600 pool, but no assets are currently held in the small-cap pool. All assets are managed internally.

D. SCOPE OF SERVICES

The Advisor will be required to provide the following scope of services to BOI:

1. Evaluate the current asset allocation strategy, between equities and fixed income, of the BOI in managing the State Endowment Funds.
2. Evaluate the current asset allocation strategy, between equity asset classes, of the BOI in managing the State Endowment Funds.
3. Evaluate the current rebalancing strategy of the BOI in managing the State Endowment Funds.
4. Make recommendations to the BOI regarding potential modifications to the asset allocation strategies (Risk and Return Optimization) and rebalancing strategy in conformity with the Arizona Constitution, Arizona Revised Statutes, and the Investment Policy.
5. Provide periodic reports and information relating to the ASTO's asset allocation and rebalancing strategy and other pertinent information pertaining to the investment of the Endowment funds as requested by the BOI and ASTO.
6. Participate in public meetings on a periodic basis to provide information to the BOI and ASTO concerning recommendations regarding potential changes to the asset allocation and rebalancing strategy for the Endowment Fund.
7. Provide additional services as requested by the BOI.

The scope of services defined in the final contract between ASTO and the Advisor will be binding and will supersede this section of the RFP if different from the scope of services defined here.

Part II

ADMINISTRATIVE INFORMATION

A. INSTRUCTIONS FOR SUBMITTING PROPOSALS

1. Advisors responding to this RFP must provide answers to the questions posed in Part III of this RFP. All proposals must be complete in every respect and must answer concisely and clearly all questions proposed by the RFP. Late proposals will not be accepted.
2. Proposals shall be submitted with a cover letter stating that the firm meets all of the minimum requirements listed in Part I.B of this RFP, and that the firm is able and willing to provide the type and level of services required to fulfill the scope of services proposed in this RFP. The cover letter and the offer made by the proposal, and any clarifications to that proposal, shall be signed by an officer of the offering firm or a designated agent empowered to bind the firm in a contract. The cover letter must also identify any sections of their proposal that the firm is identifying as confidential. (See Disclosure of Proposal Content below.)
3. Proposals should follow the order of questions as they are asked in Part III of this RFP. In response to each question asked in Part III, restate the **main** question (denoted by a number or a letter) in bold font followed by your answers stated in regular font. Responses should be thorough and answer the specific question asked, (including the issues addressed in the bullet points following a question).
4. Supporting material must be clearly referenced to the appropriate question. Information and materials which are strictly promotional in nature should not be used.
5. Receipt, by any Advisor, of copies of the RFP in any form (including written, electronic, or verbal) prior to the Official Date of Release will result in disqualification from this search. Any communication by the Advisor or Advisor's agents with the BOI members during the selection process will result in disqualification from this search. Any contact with ASTO staff, beyond information requests or clarifications directly related to this search, will result in disqualification from the search. Firms will be given the opportunity to submit written requests to ASTO for clarification of questions or terms contained in the RFP. In all cases, verbal communications will not override written communications.
6. Proposals must be submitted no later than 4:00 p.m. MST, November 30, 2004.
7. A firm must submit five (5) hardcopies of their proposal to ASTO at the following addresses:

Five copies to:
Arizona State Treasurer's Office
1700 W. Washington
Phoenix, AZ 85007
Attn: E. Blaine Vance, Deputy Treasurer

In addition, the firm must provide a complete electronic version of its proposal to ASTO via email at blainev@treasury.state.az.us or on a CD. The firm's name must appear in the e-mail title (i.e., XYZ Advisor Response to RFP) or be visibly printed on the CD.

A. REJECTION OF PROPOSALS

1. Firms responding to this RFP must restrict their proposed investment structure to that specified in this RFP. Alternate or substitute structures will be rejected.
 2. ASTO reserves the right to reject any or all proposals in whole or in part received by this request, due to noncompliance with the requirements of this RFP or for any other reason. ASTO will not pay for any information herein requested, nor is it liable for any costs incurred by the submitting Advisor/Consultants.
 3. Advisors whose proposals do not meet the mandatory requirements will be so notified. After evaluation of the proposals, selection, and approval by ASTO, all Advisors will be notified of the successful firm.
 4. ASTO reserves the right to not hire or to defer the hiring of a firm for these consulting services.
- B. DISCLOSURE OF PROPOSAL CONTENT Trade secrets or proprietary information that are recognized as such and protected by law may be withheld from public disclosure, but only if designation of such sections is stated in proposing firms' cover letters and confidential information is clearly identified as such on each of the applicable pages within the body of the proposal.
- C. PROPOSAL OBLIGATIONS The contents of the proposal and any clarifications thereto submitted by the successful Advisor shall become part of the contractual obligation and will be incorporated by reference into the ensuing contract.
- D. SIGNATURE OF ADVISOR/CONSULTANT'S AGENT The offer made by the proposal, and any clarifications to that proposal, shall be signed by an officer of the offering firm or a designated agent empowered to bind the firm in a contract.
- E. ASTO CONTRACT SIGNATORY E. Blaine Vance, Deputy Treasurer.
- F. AWARD OF CONTRACT ASTO reserves the right to award this contract not necessarily to the firm with the lowest fee and cost proposal, but to the firm which will provide the best match to the requirements of the RFP. The successful Advisor will be determined in accordance with the evaluation criteria defined by ASTO
- G. EVALUATION OF PROPOSALS An Evaluation Committee will meet to evaluate and score the proposals. Upon completion of the Evaluation Committee's evaluation, finalist interviews will be, and office visits may be, conducted with some candidate firms. Determination of whether to conduct interviews and which firms to interview is at the sole discretion of the Evaluation Committee. A determination to execute a contract may be made by the ASTO Evaluation Committee without an interview. ASTO's Evaluation Committee will make the recommendation for final Advisor selection to the Arizona State Treasurer.
- H. EVALUATION CRITERIA Proposals will be evaluated using the following criteria:
- | | | |
|-----|--|-----|
| I. | The Firm's Organization and Staff Qualifications | 25% |
| II. | The Firm's Advisory Style and Process | 25% |

- | | | |
|------|--------------------------------|-----|
| III. | The Firm's Relevant Experience | 20% |
| IV. | The Firm's Resources | 10% |
| V. | The Firm's Fee Proposal | 20% |
- I. THE RESULTING CONTRACT The contract between ASTO and the Advisor shall be a combination of the specifications, terms and conditions of the RFP, any written clarifications or changes made to this RFP, the offer contained in the successful proposal, and any additional contractual terms and conditions agreed to mutually and in writing by the parties.
- J. TERM OF CONTRACT The initial contract shall be for a one-year period from the date of its execution. The resulting contract may be terminated at ASTO's discretion, with or without cause, after thirty (30) days written notice to the Advisor/Consultant.
- K. ADVISORY/CONSULTANT CONTRACT REQUIREMENTS
1. Contract: Any contract between ASTO and the successful Advisor will follow format specified by ASTO and will contain the Arizona Department of Administration's ("ADOA") standard terms and conditions for professional services contracts. The contents of the RFP as revised and/or supplemented and the successful Advisor's proposal will be incorporated into the contract.
 2. Contract Deviation: Any additional terms and conditions which may be the subject of negotiation will be discussed only between ASTO and the successful Advisor and shall not be deemed an opportunity to amend any Advisor's proposal.
 3. Duration of Contract Term: The term of the contract is expected to be for a period of one year, with annual evaluations.
 4. Termination: The contract may be terminated by either of the parties thereto upon written notice delivered to the other party at least 30 days prior to the intended date of termination.
 5. Status of the Advisor/Consultant: The Advisor, his agents and employees, are independent contractors performing professional services for the ASTO and are not employees of the ASTO. The Advisor and its agents and employees shall not, as a result of this contract, accrue leave, retirement, insurance, bonding, use of state vehicles, or any other benefits afforded to employees of ASTO or the State of Arizona.
 6. Assignment: The Advisor shall not assign or transfer any interest in the contract or assign any claims for money due or to become due under the contract.
 7. Subcontracting: The Advisor shall not subcontract any portion of the services to be performed under the contract without the prior written approval of the ASTO.
 8. Records and Audit: The Advisor shall maintain records in sufficient detail to fully describe the services rendered during the term of the contract. These records shall be subject to inspection by the ASTO, DOA, and the State Auditor for a period of five years after the termination of the contract. ASTO shall have the right to audit billings both

before and after payments; payment under the contract shall not foreclose the right of the ASTO to recover excessive or illegal payments.

9. Release: The Advisor, upon termination of the contract, shall release the ASTO from all liabilities, claims and obligations whatsoever arising from or under the contract. The Advisor agrees not to purport to bind ASTO, unless the Advisor has express written authority to do so, and then only within the strict limits of that authority.
10. Confidentiality: Any information provided to or developed by the Advisor under this contract shall be kept confidential and shall not be available to any individual or organization without the prior written approval of the ASTO, unless otherwise required by law.
11. Product of Services; Copyright: All written materials developed or acquired by the Advisor under this contract shall become the property of the ASTO and shall be delivered to the ASTO no later than the final termination date of this contract. Nothing produced in whole or in part by the Advisor under this contract shall be the subject of any application for a copyright by or on behalf of the Advisor without the prior written approval of the ASTO.
12. Conflict of Interest: The Advisor warrants that he presently has no interest, and shall not acquire any interest, directly or indirectly, which would conflict in any manner or degree with the performance of services required under this contract. Pursuant to A.R.S. 38-511, the State, its political subdivisions or any department or agency of either may, within three years after its execution, cancel any contract, without penalty or further obligation, made by the State, its political subdivisions, or any of the departments or agencies of either if any person significantly involved in initiating, negotiating, securing, drafting or creating the contract on behalf of the State, its political subdivisions or any of the departments or agencies of either is, at any time while the contract or any extension of the contract is in effect, an employee or agent of any other party to the contract in any capacity or a consultant to any other party of the contract with respect to the subject matter of the contract. A cancellation made pursuant to this provision shall be effective when the Advisor receives notice of the cancellation unless the notice specifies a later time.
13. Amendment: The contract shall not be altered, changed or amended except by an instrument in writing executed by the parties.
14. Merger: The contract shall incorporate all of the agreements, covenants, and understandings between the parties thereto concerning the subject matter thereof. No prior agreement or understanding, verbal or otherwise, of the parties or their agents shall be valid or enforceable unless embodied in the contract.
15. Applicable Law: The contract shall be governed by the Laws of the State of Arizona.
16. Waiver: No waiver of any breach of this contract or any of the terms or conditions thereof shall be held to be a waiver of any other subsequent breach; nor shall any waiver be valid or alleged or binding unless the same shall be in writing and signed by the party alleged to have granted the waiver.

17. Standard of Care/Indemnification: The Advisor holds itself out as an expert in the investment of large trust or investment funds. The Advisor represents itself as being possessed of greater knowledge and skill than the average man. Accordingly, the Advisor is under a duty to exercise a skill greater than that of an ordinary man and the manner in which the Advisor carries out its duties under the contract will be evaluated in light of the Advisor's superior skill. The Advisor shall wholly indemnify ASTO against any and all losses, damages, costs, expenses, legal fees, and liability resulting from investment advice and other services provided under the contract that are not made in accordance with the provisions contained in this contract, investment advice not made in accordance with the law applicable to the Funds for which investment advice is rendered, and advice not made in accordance with the standard of care set forth in this paragraph.
18. Non-availability of funds: Every payment obligation of the State under this contract is conditioned upon the availability of funds appropriated or allocated for the payment of such obligation. If funds are not allocated and available for the continuance of this contract, this contract may be terminated by the State at the end of the period for which funds are available. No liability shall accrue to the State in the event this provision is exercised, and the State shall not be obligated or liable for any future payments or for any damages as a result of termination under this paragraph.
19. Non-discrimination: the Advisor shall comply with Executive Order 99- 4 which mandates that all persons, regardless of race, color, religion, sex, age, national origin or political affiliation, shall have equal access to implement opportunities, and all other applicable State and Federal employment laws, rules, and regulations, including the Americans with Disabilities Act. The Advisor shall take affirmative action to ensure that application applicants for employment and employees are not discriminated against due to race, creed, color, religion, sex, national origin or disability.
20. Arbitration: the parties to this contract agree to resolve all disputes arising out of or relating to this contract through arbitration, after exhausting applicable administrative unit review, to the extent required by A.R.S. 12-1518 except as may be required by other applicable statutes.
21. Third-party Antitrust Violations: The Advisor assigns to the State any claims for overcharges resulting from antitrust violations to the extent that such violations concern materials or services supplied by third parties to the Advisor toward fulfillment of this contract

SCHEDULE OF EVENTS

1. **November 15, 2004** – OFFICIAL DATE OF RELEASE OF RFP
2. **November 22, 2004** - INQUIRIES - Inquiries and requests for interpretation or clarification of the RFP from potential bidders will be accepted only in writing, as e-mailed, and only if received no later than 4:00 p.m. MST, November 22, 2004. E-Mail requests to:

Arizona State Treasurer's Office

Attn: E. Blaine Vance, Deputy Treasurer
E-Mail: blainev@treasury.state.az.us

3. **November 24, 2004** – RESPONSE TO INQUIRIES - Responses to, and addenda resulting from, requests for interpretation shall be posted on the ASTO website:
www.treasury.state.az.us.
4. **November 30, 2004** – PROPOSALS DUE - Proposals must be received by **4:00 p.m.** MST.

Part III
QUESTIONNAIRE

In addition to the completing this questionnaire, please provide the following:

- organizational chart
- biographies of the firm's key principals, executives and investment staff (years with the firm, investment experience, age, education, etc.)
- a spreadsheet containing the applicable historical performance for all ERISA / Public funds advised since inception.
- examples of any reports that you commonly share with your advisory clients (e.g., position reports, risk/exposure reports, asset allocation reports, optimization reports, etc.)
- Copy of ADV Part II

DATE:

I. CONTACT INFORMATION

Firm domicile / jurisdiction	
Legal headquarters address	
Headquarters address	
Headquarters phone	
Headquarters fax	
Satellite offices (city/country) and functions	

	Name	City	Phone	E-mail
Key contact person				
Person completing questionnaire				
Head of client relations				
Chief Executive Officer				
If Applicable:				
Chief Investment Officer				
Chief Operating Officer				
Chief Financial Officer				
Head of Risk Management				

II. PEOPLE & ORGANIZATION

(a) Firm structure & management

- 1 Please describe the history of your firm.
e.g., Who were the founders of the firm, and are they still active? How long has the primary Advisory team been together? etc.
- 2 Does the firm have any affiliates and/or related entities? If so, describe the relationship and the % equity of the firm that is owned by affiliates/related entities.
- 3 What is the ownership structure of your organization, including names of the firm's principals and % equity ownership in the firm? Please elaborate on the financial stake that your principals and Advisory team have in your firm.
- 4 Are any principals involved in other businesses? If so, how much time is devoted and what is the nature of the business?
- 5 Are any of the principles or key staff related? Does the firm do business with outside vendors with family connections?
- 6 What are the current and future priorities for the firm? (e.g., increase staffing, implementing new trading strategies/programs)

(b) Key Personnel

- 1 List all key NON-advisory staff (e.g., CFO, COO, head of risk, etc), including number of years with the firm and prior experience.
If your firm bios cover this information, please attach as a separate document.
- 2 List all key advisory staff, including number of years with the firm and prior investment experience.
If your firm bios cover this information, please attach as a separate document.
- 3 How is your firm marketed? Who is primarily responsible for marketing? Do you pay commissions to external sales agents?
- 4 Have any senior personnel left or joined the firm within the last 2 years? If so, please indicate when and why they left, where they went and describe the positions of any new people hired?

(c) List Your Regulatory Registrations

	Year Registered	Any issues / violations?
Commodity Pool Operator?		
Commodity Trading Advisor?		
Investment Advisor? (1940 Act, SEC Form ADV)		
Investment Company?		
Broker-Dealer or Introducing Broker?		
Futures Commission Merchant?		
Other: specify		

(d) Compliance

- 1 Who handles compliance issues? (e.g., CFO, internal general counsel, internal compliance officer)
- 2 Are your financial statements reviewed/audited by external auditors? Please elaborate on any material issues from the past 3 years audits.
- 3 Has your firm changed auditors over the past 3 years? If so, explain the reason for the change and provide the name of the predecessor auditor.
- 4 Are there any lawsuits or criminal, legal, regulatory, arbitration or administrative proceedings pending or threatened against the firm (or any predecessor firms) or any of its principals, or have there ever been any? Has the firm or any of its employees had any disputes over non-compete, non-disclosure, or similar covenants? If so, please explain.
- 5 How do you ensure compliance with conflict of interest issues?
- 6 Please describe any relationships you have which could be conceived as having the potential for a conflict of interest?

III. ADVISORY

1	Describe the firm's Advisory process
2	Describe the qualitative and quantitative criteria used in the Advisory process.
3	What type of information/support from the ASTO will be required to complete the Advisory engagement?
4	Please describe preferences and attitudes of Advisor regarding active versus passive management and internal versus external management of applicable asset classes?
5	Have you reviewed and understand the ASTO investment policy?
6	What are the primary reasons for recommending changes in portfolio asset allocations?
7	Describe the process and fees for implementing an active, external management recommendation. List separate from fees and process listed in Part 1(D) - "Scope of Services" listed in the RFP.
8	Are there any items not covered in the section above which may be material to the engagement process?

IV. AUDIT, LEGAL & ADMINISTRATION

* NOTE: if you have this data in a separate document, please attach in lieu of completing this section

INDEPENDENT AUDITOR		Year of first audit of your firm by this auditor:
Name		
Company		
Position / Title		
Phone Number		
Address		

LEGAL COUNSEL – ONSHORE	
Name	
Company	
Position / Title	
Phone Number	
Address	

LEGAL COUNSEL – OFFSHORE	
Name	
Company	
Position / Title	
Phone Number	
Address	

V. PROFESSIONAL AND CLIENT REFERENCES

* NOTE: if you have this data in a separate document, please attach in lieu of completing this section

REFERENCE #1	
Company	
Position / Title	
Phone Number	
Address	
Relationship to Manager	

REFERENCE #2	
Company	
Position / Title	
Phone Number	
Address	
Relationship to Manager	

REFERENCE #3	
Company	
Position / Title	
Phone Number	
Address	
Relationship to Manager	

REFERENCE #4	
Company	
Position / Title	
Phone Number	
Address	
Relationship to Manager	

REFERENCE #5	
Company	
Position / Title	
Phone Number	
Address	
Relationship to Manager	

REFERENCE #6	
Company	
Position / Title	
Phone Number	
Address	
Relationship to Manager	

REFERENCE #7	
Company	
Position / Title	
Phone Number	
Address	
Relationship to Manager	

VI. MOST RECENTLY ACQUIRED CLIENTS

* NOTE: if you have this data in a separate document, please attach in lieu of completing this section

CLIENT REFERENCE #1	
Company	
Position / Title	
Phone Number	
Address	
Date Relationship Began	

CLIENT REFERENCE #2	
Company	
Position / Title	
Phone Number	
Address	
Date Relationship Began	

CLIENT REFERENCE #3	
Company	
Position / Title	
Phone Number	
Address	
Date Relationship Began	

CLIENT REFERENCE #4	
Company	
Position / Title	
Phone Number	
Address	
Date Relationship Began	

CLIENT REFERENCE #5	
Company	
Position / Title	
Phone Number	
Address	
Date Relationship Began	

CLIENT REFERENCE #6	
Company	
Position / Title	
Phone Number	
Address	
Date Relationship Began	

CLIENT REFERENCE #7	
Company	
Position / Title	
Phone Number	
Address	
Date Relationship Began	

CLIENT REFERENCE #8	
Company	
Position / Title	
Phone Number	
Address	
Date Relationship Began	

